

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2003.

We engaged Carpenter, Mountjoy & Bressler, PSC to perform the audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC evaluated the Pendleton County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PENDLETON COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Carpenter, Mountjoy & Bressler, PSC has completed the Pendleton County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

Excess fees decreased by \$3,348 from the prior year, resulting in excess fees of \$20,380 as of December 31, 2003. Revenues increased by \$25,122 from the prior year and expenditures increased by \$28,470.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

Deposits:

As of October 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$145,320 of public funds uninsured and unsecured.

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The Honorable Henry W. Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Sheriff for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 24, 2004, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Honorable Henry W. Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits
- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Pendleton County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in dark ink on a light-colored background.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 24, 2004

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

Federal Grants (Note 4)		\$	36,559
State Fees For Services:			
Kentucky Law Enforcement Foundation Program Fund	\$	18,167	
Sheriff Security Services		10,533	
Finance and Administration Cabinet		5,872	
Delinquent Taxes		156	34,728
Circuit Court Clerk:			
Fines and Fees Collected			1,880
Fiscal Court:			
Transporting Prisoners	\$	66,621	
Computer Software		1,749	
Election Commission		300	68,670
County Clerk - Delinquent Taxes			5,303
Commission On Taxes Collected			163,883
Fees Collected For Services:			
10% Add On Fee	\$	22,712	
Serving Papers		15,300	
Auto Inspections		4,955	
Accident and Police Reports		284	
Advertising		222	
Conveying Prisoners		52	43,525
Other:			
Maintenance Fund	\$	7,000	
Carrying Concealed Deadly Weapon Permits		6,105	
Miscellaneous		3,235	16,340
Interest Earned			1,471

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
 LARK O'HARA, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Revenues (Continued)

Borrowed Money:

State Advancement	\$	74,157	
Bank Note		<u>14,000</u>	<u>\$ 88,157</u>

Total Revenues			\$ 460,516
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Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	188,221	
Other Salaries		20,700	
Overtime		2,226	

Employee Benefits-

Employer's Share Social Security		14,764	
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Contracted Services-

Copier		7,289	
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Materials and Supplies-

Car Phones and Pagers		4,282	
Office Materials and Supplies		2,728	
Uniforms		2,650	
Ammunition		464	

Auto Expense		24,672	
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Other Charges-

Maintenance Fund		8,560	
Carrying Concealed Deadly Weapon Permits		3,985	
Miscellaneous		3,671	
Utilities		1,892	
Postage		841	
Dues		336	

Capital Outlay-

Radios		897	
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Debt Service:

State Advancement		74,157	
Notes		<u>14,048</u>	<u>376,383</u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2003
(Continued)

Net Revenues	\$ 84,133
Less: Statutory Maximum	<u>63,753</u>
Excess Fees Due County for 2003	\$ 20,380
Payment to County Treasurer - December 31, 2003	<u>20,380</u>
Balance Due at Completion of Audit	<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems.

This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months of the year and 7.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the first six months of the year and 18.51 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of October 31, 2003, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$145,320 of public funds uninsured and unsecured.

The county official's deposits are categorized below to give an indication of the level of risk assumed by the county official as of October 31, 2003.

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2003
 (Continued)

Note 3. Deposits (Continued)

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,259,828
Uncollateralized and uninsured	<u>145,320</u>
Total	<u>\$ 2,505,148</u>

Note 4. Federal Grant

The Pendleton County Sheriff's Office received a COPS in School federal grant. The purpose of this grant is to pay the salary of one full time officer to be deployed into the school. The total award amount was \$106,763. The total received and expended during 2003 was \$36,559.

COMMENTS AND RECOMMENDATIONS

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits

On October 31, 2003, \$145,320 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response:

None

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties.

The following are some compensating controls which could offset a lack of adequate segregation of duties:

1. Strong and direct supervision by the official over receipts
 - Cash recounted and deposited by the official
 - Surprise cash counts by the official
 - Reconciliation of other monthly reports to source documents and receipts and disbursement ledgers
2. Strong and direct supervision by the official over disbursements
 - All disbursement checks to be signed by two people, with one being the official
 - Official examines payroll checks prepared by another employee and distributes checks to employees
 - Other disbursement checks prepared by another employee are examined by the official for proper documentation
 - Official mails disbursements

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

Lacks Adequate Segregation Of Duties (Continued)

3. General Assets
 - Employees are cross-trained
 - Employees are required to take mandatory vacations
 - Official prepared bank reconciliations

Sheriff's Response:

None.

PRIOR YEAR:

Lacks Adequate Segregation Of Duties

This comment has not been corrected and is repeated in the current year.

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Henry W. Bertram, Pendleton County Judge/Executive
The Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Pendleton County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated November 24, 2004. This was a special report on the County Sheriff's financial statement prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's financial statement for the year ended December 31, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

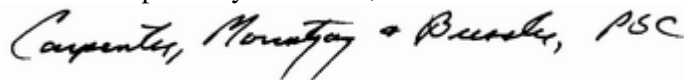
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above, to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -
November 24, 2004

